

**DEPARTMENT OF COMMERCE
CFO GUIDANCE ON THE PREPARATION
AND SUBMISSION OF ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 1999**

I. General

All reporting entities should follow the conventions listed under "General Instructions for the Financial Statements" on pages 8-10 of OMB 97-01.

The financial statements package to which this guidance relates will be a component of the Department's Fiscal Year 1999 Accountability Report that will be issued separately.

To facilitate communication between OFM and the bureaus on financial management and related issues, OFM has designated some of its staff as bureau liaisons. Each bureau will be notified of its liaison.

GAO Checklist

GAO's "Checklist for Reports Prepared Under the CFO Act" (Checklist) must be completed by preparers of bureau financial statements and reviewed by each bureau's finance officer. Please note that the current version (October 1998) of the Checklist does not reflect the recent amendments to OMB 97-01 or the FASAB interpretations and exposure drafts that will be effective for the FY 1999 financial statements. See the GAO website for an updated version of the checklist.

Reporting of Intra-Commerce, Intra-governmental, and Intra-bureau Activity

Attachments B, C and D provide specific instructions on bureaus' reporting of intra-Commerce, intra-governmental, and intra-bureau activity, respectively. Intra-Commerce reports are needed to prepare elimination entries for the Department-wide consolidated financial statements (CFS). Intra-governmental reports are needed to verify amounts by trading partners included in the bureaus' FACTS submissions, and to support the intra-governmental line items on the Department-wide CFS. Intra-bureau reports are needed to reconcile a bureau's financial statements to its FACTS submission.

Adherence to Deadlines

A major factor in obtaining a clean audit opinion is ensuring that bureau audits stay on time. Any bureau audits which fall behind risk the possibility of a scope limitation, and subsequent disclaimer of opinion by the bureaus' auditors. Since the preparation of the Department-wide consolidated financial statements and subsequent audit opinion relies on the cumulative results of the individual bureau audits, any one bureau that falls behind may delay the entire Department and may adversely affect the Department's audit opinion. It is also important that OFPA receives accurate information about the status of the audits and any potential delays in the submission of data. If it appears that the bureau will not be able to meet the overall due dates, please contact Lisa Casias as soon as possible to negotiate a due date which can be achieved without significant delay to the preparation of the Department's consolidated financial statements. Adherence to the deadlines listed in **Attachment G** will be reinforced by Heads of Operating Units and CFOs, and monitored by OFM.

Rounding

Line items must be rounded to the nearest thousand dollars. Line items should foot to the subtotals and totals shown.

Coverage

The following reporting entities are required to prepare financial statements for FY 1999:

- Bureau of Export Administration
- Economic and Statistics Administration & Bureau of Economic Analysis
- Bureau of the Census
- Economic Development Administration
- General Administration - Working Capital Fund
- General Administration - Franchise Fund
- General Administration - Office of Inspector General
- General Administration - Gifts and Bequests
- General Administration - Salaries & Expenses Fund
- International Trade Administration
- Minority Business Development Agency
- National Oceanic and Atmospheric Administration
- National Telecommunications and Information Administration
- Patent and Trademark Office
- Technology Administration
- National Institute of Standards and Technology
- National Technical Information Service

2. Management Responsibility and Authority

FY 1999 financial statements are to be prepared at the direction of the head of the operating unit, with the advice and assistance of financial management staff, to help ensure fair presentation and adequate disclosure. When a cross-servicing agreement exists, the manager who signs the management representation letter for the annual financial statement is responsible for coordinating the preparation of the statements, even where accounting services are provided by another bureau or agency. However, any organization that provides accounting services on a reimbursable basis is responsible for preparing its portion of the principal statements and the corresponding notes to the principal statements.

3. Form and Content

Revised OMB Bulletin No. 97-01 (revised November 20, 1998) should be followed for preparation of the Overview, all principal financial statements and notes, and supplemental information. Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Concepts (SFFAC) and Statements of Federal Financial Accounting Standards (SFFAS) are also applicable. You may download a copy of OMB 97-01 at the following Internet address:

<http://www.whitehouse.gov/OMB/bulletins/97-01.html>

The Department-wide consolidated financial statements will not be comparative for FY 1999. Bureaus are not required to prepare comparative consolidated financial statements for FY 1999. When comparative statements are presented, footnotes should be written so as to contain the information necessary for full disclosure of both years.

Bureaus may, at their discretion, submit consolidating rather than consolidated statements as their principal statements. However, if consolidating statements are submitted in lieu of the principal statements, the related notes must support the figures in each column of the consolidating statements.

The financial statements prepared for each reporting entity will consist of:

- (a) *Transmittal Memorandum*
- (b) *Auditor's Reports*
- (c) *Management's Comments to Findings and Recommendations (optional)*
- (d) *Overview of the Reporting Entity*
- (e) *Principal Statements*
- (f) *Notes to the Principal Statements*
- (g) *Required Supplementary Stewardship Information*
- (h) *Required Supplementary Information*
- (i) *Other Accompanying Information*

Transmittal Memorandum

Requirements for the Transmittal Memorandum will be included in the guidance for the Department's FY 1999 Accountability Report.

Overview of the Reporting Entity

Bureau financial measures should support the Department's measures (i.e., EFT payments, Prompt Payment, amount of delinquent debt and amount of debt referred for cross servicing, etc.). OFM is currently working with the Budget Strategic Planning Office and bureau representatives to determine which bureau performance measures will be included in the FY 1999 Departmental Overview. OFM will notify the bureaus of the measures selected, by June 30, 1999. Once identified, the bureau Overviews should include a discussion of these performance measures along with other significant bureau measures. Bureaus should perform fluctuation analyses of key financial statement line items and explain trends and variations from past periods in the financial management performance section of their Overview.

In developing financial, statistical, and other information for presentation in the Overview, reporting entities should prepare and retain adequate supporting documentation for review and audit.

The CFO has issued guidance in the Department's Budget and Program Analysis Handbook requiring that performance measures used in budgets are to be increasingly outcome-based, rather than output-based. Refer to Chapter III, Section 1(D) - **Standards of Department of Commerce Budget Formulation** for detailed instructions and guidance on developing and reporting performance measures.

Reporting Year 2000 (Y2K) Issues

OMB 97-01 addresses Y2K reporting required in the Overview. When reporting Y2K costs in the Overview, bureaus should ensure that these costs are consistent with those reported to the Department's Chief Information Officer.

As of the date of this report, OMB has not issued any new Y2K required disclosures for the FY 1999 accountability reports. OFM will notify the bureaus when OMB issues the new requirements.

Principal Statements

All the principal statements should be prepared from the trial balance, which includes audit adjustments. OFPA has prepared pro-forma Department financial statements that crosswalk to the standard general ledger (SGL) (see **Attachment A, Exhibits 1 - 4**). Also, a mock presentation of the Department's Consolidated Statement of Net Cost is presented at **Attachment A, Exhibit 5**. These presentations should assist you in understanding the format of the Department's presentation of the consolidated financial statements and how your bureau statements should be prepared.

Please review your current chart of accounts to ensure that it either incorporates the Standard General Ledger accounts in the crosswalks, or that your general ledger has equivalent accounts. If not, you must begin immediately to add the missing SGL accounts to your general ledger, as well as prepare the accounting transactions and journal voucher entries to create the proper balances in them.

Bureaus are required to provide to OFM, along with their financial statements, copies of their pre-closing SGL Trial Balances (for each Appropriation Symbol) as of September 30, 1999.

If your bureau wishes to present financial statements in a format that is different from the Department's pro-forma statements, you should provide a crosswalk of how your statements should be consolidated to the Department's format.

Please refer to OMB-97-01, and the appropriate FASAB Statements of Federal Financial Accounting Concepts and Standards, for other general guidance relating to the Principal Statements.

The Principal Statements consist of:

1) Balance Sheet

A bureau's Balance Sheet presents, as of a specific time, its assets, liabilities, and net position. The bureau must distinguish between its entity and non-entity assets. Additionally, bureaus are required to separately present liabilities covered by budgetary resources and liabilities not covered by budgetary resources.

To ensure consistency of certain line items on the Department-wide Balance Sheet, OFM is requiring that the following liabilities be reported on each bureau's Balance Sheet:

Accrued Payroll and Benefits

When payroll is accrued at year-end, it includes benefits that a bureau has to pay to OPM and/or IRS, in addition to the amount paid to the employee. The portions payable to these Federal entities should be classified as intra-governmental. The payroll payable to the employees should be classified as with the public.

Accrued FECA Liability

Bureaus should report its Accrued FECA Liability as intra-governmental because the payments will be made to the Department of Labor (Labor), not to any employee, and because Labor is carrying this amount in its general ledger as a receivable.

Labor issues quarterly notices of costs incurred under the Federal Employees Compensation Act (FECA). These notices should be accrued as a liability until they are paid, usually through an OPAC each November. Information on the employees who incurred the costs is available from your personnel office. Once the employees are identified, the costs should be matched to the goal with which the employee was associated, to the extent possible.

Actuarial FECA Liability

Actuarial FECA Liability should not be reported as intra-governmental because Labor is not carrying this liability on its accounts.

Each Fall, Commerce receives notice of the Department-wide Actuarial FECA Liability from Labor. Each bureau's Actuarial FECA Liability is based on the present value of projected costs for the next 37 years, based on Commerce employees currently receiving FECA compensation. OFM allocates this liability to the bureaus based on actual FECA liabilities incurred for the prior three-year period. The difference between the Actuarial FECA Liability at September 30, 1998 and at September 30, 1999 should be

recorded as an upward adjustment to expense (liability increased) or downward adjustment to expenses (liability decreased). (The Accrued Annual Leave liability is normally handled similarly). The upward or downward adjustment to expense should be assigned to responsibility segments and goals on a rational basis, whether it is payroll dollars, employee head count, or whatever else you determine to be the best allocation method. The basis for assignment and the assignment calculation should be documented.

2) *Statement of Net Cost*

Reporting entities preparing a combined Statement of Financing should include a Combined Total column in the Statement of Net Cost. The Combined Net Cost of Operations on the Statement of Net Cost must reconcile to the Combined Net Cost of Operations presented on the Statement of Financing.

The Statement of Net Cost makes the following distinctions in the presentation of exchange revenue and expenses:

Responsibility Segments - For FY 1999, the Department will again prepare its Statement of Net Cost using bureau based responsibility segments. Bureaus should present their Statements of Net Cost in a manner that will facilitate the Department's development of its Statement of Net Cost.

Program Costs – For FY 1999, the Department will prepare its Statement of Net Cost using bureau goals, as presented in the Departments FY 2000 Annual Performance Plan, as the basis for aggregating costs by Departmental mission/theme. We suggest that each bureau finance office, with help from its respective planning and budget offices, identify program costs that support bureau goals. We recognize this may not be an easy task since many of your cost accounting systems are not setup to collect and report information by strategic goal; however, if this is the case, then the costs and exchange revenues need to be assigned to the strategic goal. The costs in the Statement of Net Cost should be reported as “With the Public” or “Intra-governmental” based on from whom the service/product is acquired. Bureau goals are listed on **Attachment B, Exhibit 5**.

Cost Assignments - Cost assignments should be performed by one of the following methods, in order of preference:

- (a) directly tracing costs wherever feasible and economically practical;
- (b) assigning costs on a cause-and-effect basis; or
- (c) allocating costs on a reasonable and consistent basis.

When deciding on a cost assignment method, you should consider using similar or compatible cost accounting processes throughout your component units to facilitate comparisons and consolidation of cost information. Once you decide on a cost assignment method(s), it is extremely important to document your method(s). Documentation of your methodologies provides that timely, reliable data is obtained, maintained, and fairly disclosed in your reports. At a minimum, cost allocation calculations need to be fully documented so that a clear audit trail is established. Further, documentation of the cost allocation calculations is needed to prepare the reports in a consistent manner for future periods and support the Department's system of internal controls. As a reminder, you need to be prepared to justify your reporting of Costs Not Assigned to Programs.

Pensions and Other Retirement Benefits - Bureaus are required to recognize the unreimbursed costs of pensions and other retirement benefits borne by other Federal agencies. Presently, OFM provides information, on a bureau level, from which these costs can be calculated. Unless your finance office can obtain a more detailed breakout of the payroll costs used in these calculations, the OFM-provided figures should be assigned to responsibility segments and programs using a methodology that tracks other personnel costs.

Judgment Fund - Program-related Judgment Fund accruals should be directly allocated to the responsibility segments and associated goals. Employee-related Judgment Fund accruals should be allocated to a bureau's responsibility segments and programs/goals. OFPA will obtain Commerce's FY 1999 judgment fund payments from Treasury and provide this information to the applicable bureaus.

For additional information on Pensions and Other Retirement Benefits and Judgment Fund accruals, please refer to OMB's Letter of April 2, 1998 titled "Technical Guidance for the Implementation of Managerial Cost Accounting Standards for the Federal Government."

3) *Statement of Changes in Net Position*

This statement presents the beginning net position, changes in net position during the fiscal year, and the ending net position. Bureaus should organize changes (during the year) in this statement similar to their Statements of Net Cost, which displays the lines of business as responsibility segments.

4) *Statement of Budgetary Resources*

Each bureau shall prepare a combined Statement of Budgetary Resources for FY 1999, and must disclose in a note that the statement is combined, and as such, intra-entity transactions have not been eliminated. Also, the statement must be properly titled "Combined" or "Combining" as applicable. The Statement of Budgetary Resources should be aggregated to reflect all the activity of the reporting entity for the year covered by the financial statements.

5) *Statement of Financing*

A consolidated Statement of Financing is not required for FY 1999. Each bureau shall prepare a combined Statement of Financing for FY 1999, and must disclose in a note that the statement or schedule is combined, and as such, intra-entity transactions have not been eliminated. Also, the statement or schedule must be properly titled "Combined" or "Combining" as applicable.

6) *Statement of Custodial Activity*

Due to the immaterial amounts related to this statement, the Department is not required to prepare a Statement of Custodial Activity. However, bureaus should disclose the associated information in their accompanying footnotes. Bureaus with Custodial Activity should provide the dollar amounts of this activity to OFM so its materiality can be documented.

7) *Notes to the Principal Statements*

The notes to the principal statements should contain all disclosures necessary to make the principal statements informative and not misleading. The notes are an integral part of the principal statements.

Operating Leases

To ensure the consistency of the Department-wide footnote for Operating Leases, OFM requires that each bureau include the following for **rent payments to General Services Administration (GSA) for real property** (subject to materiality, however, if not disclosed in Notes, bureau must provide this information to OFM):

Description of Lease Arrangements - Rent Payments to GSA for Real Property

Rent payments to GSA for real property are administered by GSA under different circumstances, depending on whether the property rented is Federally owned or non-Federally owned. Bureaus are required to include an adequate description of its arrangements with GSA (or with GSA indirectly, through Commerce's Office of the Secretary).

Future Payments Due - Rent Payments to GSA for Real Property

Include the bureau's estimated rent payments to GSA for the next five fiscal years, regardless of the expiration dates, if any, of any occupancy or lease agreements with GSA (or indirectly with GSA through Commerce's Office of the Secretary). Do not include any amounts for "After Five Years."

NOTE: Since real property agreements with GSA are cancelable, disclosure of GSA rent payments is not required by OMB 97-01. However, since rent to GSA is significant, OFM believes providing, in the Notes, the estimated rent payments to GSA for the next five fiscal years is appropriate. This practice is consistent with prior fiscal years' disclosures.

8) Required Supplemental Information

Information related to Deferred Maintenance, the Working Capital Fund, the Franchise Fund, and disaggregated Statement of Budgetary Resources should be reported in this section. Please refer to OMB 97-01 for guidance.

9) Required Supplemental Stewardship Information (RSSI)

RSSI provides information pertaining to an entity's stewardship resources and responsibilities entrusted to it. Information on stewardship reporting requirements can be found in OMB 97-01, SFFAS No. 8, and Amendments to SFFAS No. 6 and No. 8. Though the Amendments were in exposure draft, the Board has approved the documents, and forwarded them to the Board's principals (the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General) for approval.

The amendment that directly affects the Department requires that the acquisition, reconstruction, or betterment of multi-use stewardship PP&E not be split between General PP&E (capitalized and depreciated) and Stewardship (expensed) PP&E, but be accounted for as General PP&E and depreciated. The amendment will be effective for the FY 1999 financial statements.

10) Other Accompanying Information

Additional relevant performance measures not presented in the Overview should be presented as Other Accompanying Information.

4. Audits of Financial Statements

Audits of financial statements are performed by OIG, or by an independent contractor to OIG, in accordance with Generally Accepted Government Auditing Standards (GAGAS). The auditor will submit an audit report to the head of the reporting entity. If the auditor considers it necessary to communicate other conditions not included in one of the required audit reports, a management letter may be prepared and submitted with, or following, the audit report.

The CFO encourages program and financial management staff to work closely and cooperatively with the auditors. At OFM, this approach is not only proving to be the most effective way to prepare and audit financial statements, but it is the method most likely to bring about needed improvements in the financial practices of the Department. Issues may arise during these audits, and it is of the utmost importance that they be resolved in a timely manner. The Deputy CFO stands ready to work with program and financial managers, OIG, and contract auditors to resolve problems and issues as they arise.

Physical Inventories

Bureaus must notify the Office of Inspector General (OIG) when their physical inventory counts for property and goods held for sale are scheduled. This is necessary so an independent observer can be present at the year-end inventory counts. Bureaus should provide notice to OIG as soon as the date is set, to ensure adequate time for scheduling. This guidance is not specifically limited to counts of inventory as defined in 97-01 (i.e., confirm year-end inventory balances.) It is also intended as a reminder to coordinate with OIG in the event that the auditors want to review internal control procedures for personal property, by counting a sample.

Federal Financial Management Improvement Act of 1996 (FFMIA)

Section 803 (b)(1) of FFMIA requires that auditors include in their financial statement audits a report on compliance with FFMIA. GAO has issued a series of checklists, which if used, will help the bureaus understand what is expected of their systems under FFMIA. In addition, an understanding of the checklists will aid the audit process, since these checklists document what the auditors will be looking for to attest to the Department's compliance with FFMIA. Managers are encouraged to use these checklists, which can be obtained from GAO's website at:

<http://www.gao.gov/special.pubs/publist.htm>

5. Reconciliation of Bureau Financial Statements to FACTS Submissions

Treasury will use bureau FACTS submissions as the basis for preparing the government-wide CFS, and requires that the Department certify that its bureaus' FACTS submissions agree to the Department-wide consolidated financial statements. Therefore, bureaus must reconcile their FACTS submissions to their consolidated financial statements, and must include audit adjustments in their FACTS submissions. ***This is not an option and OMB/Treasury will not allow exceptions.*** OFM also requires that each bureau CFO and bureau auditor certify to OFM that its FACTS submission reconciles to its financial statements. See **Attachment E** for more details.

6. Fluctuation Analysis of Financial Statements

OFM is required to perform year-to-year fluctuation analyses of the Department-wide financial statements, and provide these analyses to OIG for its audit. Additionally, the Department must include a discussion of financial trends in its Overview. For OFM to be able to perform meaningful fluctuation analyses, significant fluctuations within bureaus require explanation. Specifically, OFM requires that bureaus explain financial statement line items that increased or decreased by 10% or more from the prior year where the increase or decrease is 5 million dollars or more. **Bureaus are required to submit to OFM a fluctuation analysis (current to prior year), along with, and for each of the following principal statements:**

1) Balance Sheet

See **Attachment A, Exhibit 6** for the recommended format.

2) Statement of Net Cost

Revenues: please provide fluctuation analysis in the manner that you determine most meaningful.

Costs: the format of bureaus' Statements of Net Cost can change year to year and may not lend itself to meaningful fluctuation analysis. Additionally, for OFM to perform meaningful fluctuation analysis of costs for the Department-wide financial statements, OFM needs bureaus to summarize costs in a consistent manner. Therefore, OFM requires that each bureau submit a fluctuation analysis of **Costs by Object Class**. The required format for the fluctuation analysis is shown on **Attachment A, Exhibit 7**.

For bureaus to adequately explain significant cost fluctuations, bureaus may also need to analyze fluctuations utilizing other relevant groupings, such as by goal and/or responsibility segment. Explanations from any additional fluctuation analyses should be incorporated into the Costs by Object Class analysis, or bureaus can also submit to OFM these additional analyses.

3) Statement of Changes in Net Position

See **Attachment A, Exhibit 8** for the recommended format.

4) Statement of Budgetary Resources

See **Attachment A, Exhibit 9** for the recommended format.

7. Distribution of Annual Financial Statements.

Once audited financial statements are transmitted to the Director of OMB by the bureau CFO, finance officers may distribute copies of audited or unaudited financial statements to outside officials and interested parties, subject to the following:

- If the financial statements are audited and are designated as such, all three sections of the auditor's reports must be included with any financial statements distributed to outside officials and interested parties.
- Each page of unaudited financial statements must carry a clear label for the reader that the financial statement is "unaudited."